AUDITED FINANCIAL

STATEMENTS HANDBOOK

For Multi-Family Rental Housing Financed
by the California Housing Finance Agency

CALIFORNIA HOUSING FINANCE AGENCY
"CalHFA"

FOREWORD

Audited financial statements are one of the primary tools used by CalHFA to meet its fiduciary responsibility in overseeing housing programs, bond requirements, and assuring the integrity of the multifamily housing portfolio. The areas of noncompliance and internal control weaknesses noted in these statements will be addressed by Asset Management as appropriate.

The Audit Guide and submission requirements detailed herein are for CalHFA purposes only and the auditor must be aware of and file appropriate audit submissions as may be required by other governmental agencies, investors, etc. in their formats.

The Audit Guide is neither intended to be a complete manual of procedures, nor is it intended to supplant the auditor's judgment of audit work required. Suggested formats contained herein may not cover all circumstances or conditions encountered in an audit. The auditor should use professional judgment to add supplemental information and to determine the extent of testing necessary to support the opinion in the financial statements. All applicable compliance requirements in this Audit Guide must be addressed by the auditor. Any deviation from this Audit Guide must receive the prior written approval of CalHFA.

The auditor may contact the Asset Management staff of CalHFA if technical assistance is needed pertaining to CalHFA programs, regulations or operations. The asset manager assigned to the property undergoing audit should be contacted first.

The audit guide and subsequent clarifications or guide changes will be posted at the CalHFA Website at CalHFA.ca.gov.

The staff of CalHFA continues to be receptive to suggestions and appreciates the help provided by the accounting profession.

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INTRODUCTION

Agency

The California Housing Finance Agency was created in 1975 pursuant to the Zenovich-Moscone-Chacon Housing and Home Finance Act, as a public instrumentality and a political subdivision of the State of California, for the primary purpose of meeting the housing needs of persons and families of low or moderate income. CalHFA is authorized to issue its bonds, notes and other obligations for a variety of financing purposes. These include (1) making development mortgage and property improvement loans to qualified owners to finance housing developments or other residential structures; (2) purchasing loans through qualified mortgage lenders; and (3) making loans to qualified mortgage lenders under terms and conditions requiring the proceeds to be used for certain purposes. The mission of the California Housing Finance Agency is to finance below market rate loans to create safe, decent, sanitary and affordable rental housing and to assist first-time homebuyers in achieving the dream of homeownership.

Regulatory Agreement

Each owner participating in various CalHFA programs is required to sign a CalHFA Regulatory Agreement (or in some instances an FHA Regulatory Agreement with CalHFA amendments, addendums or modifications) as well as other documents relating to the financing of the affordability of the development. The contents of the agreements vary depending on the nature of the owner entity, the applicable CalHFA program and any special requirements. The auditor is to obtain a copy of the CalHFA Regulatory Agreement and other agreements including but not limited to the promissory note(s), deed(s) of trust and other relevant regulatory information. Once obtained, the auditor is to review the terms and conditions, and document findings of non-compliance in the accompanying information of the audited financial statements. Financing arrangements may involve another agency's requirements that interact with CalHFA. Instances of noncompliant financing arrangements should be disclosed.

OWNER’S RESPONSIBILITIES

Accounting Records

The owner is to provide CalHFA with required reports, financial statements, projections and analyses. Records must be maintained at all times in reasonable condition for proper audit. The books and records must be posted on a regular basis and consist of appropriate journal entries to a general ledger necessary to reflect project financial condition without substantial corrections or adjustments. From these accounting records, the financial statements, in all material respects, the financial position, and the results of its operations and cash flows for the years then ended must be prepared in conformity with accounting principles generally accepted in the United States of America. The cost of operations of the development includes the expenses incurred in maintaining the accounting records.

Although the owner may engage an independent auditor to perform services outside the audit, the owner or the owner’s representative should perform the management functions and make management decisions.

Audited Financial Statements

The owner is required to furnish audited financial statements as of the end of each fiscal year after completion of development for the period or year then ended or for any period as may be required by CalHFA, in accordance with GAAP. The audit is to be conducted in accordance with auditing standards generally accepted in the United States of America (GAAS) and *Government Auditing Standards*, issued by the Comptroller General of the United States and the requirements of the *Audited Financial Statement Handbook for Multi-Family Rental Housing Financed by the California Housing Finance Agency*. These financial statements must include supplementary information and reports which CalHFA requires for general analysis of operations, and for assurance of compliance with the Regulatory Agreement.

Compliance to and conformance with “Yellow Book”, HUD 4350.5, HUD IG 2000.04, OMB A-133, as these may be applicable must be assumed when engaging in the audit.

CalHFA requires a representation statement to be included in the bound copies of the financial statements. This statement should be signed by two authorized officers (owners) or directors of the owner entity. (See Appendix #1 for an example of this statement.) While it is preferable to also have two authorized officers (owners) or directors of the owner entity to sign the certification, only one officer is required to sign the certification for CalHFA certification of an audit.

Sample financial statements are provided in this Handbook. The supplementary information presented in the sample financial statements is in the order this information should be provided.

Although the independent auditor expresses an opinion on the financial statements, the financial statements themselves are the responsibility of the owner. It is the owner’s responsibility to maintain adequate books and records and examine or review the financial statements before they are sent to CalHFA.

The owner is responsible for sending one copy of the audited financial statements to the CalHFA office responsible for the supervision of the project.

Delegation of Responsibility to Agent

The owner may delegate the responsibility for the maintenance of the project accounting records to the management agent. Under these circumstances, the management agent should fulfill these responsibilities as required by the Regulatory Agreement. Additional audit fees resulting from the failure to maintain accounting records in accordance with CalHFA requirements may not be charged to the project. The management agent may be required to provide, at his/her own expense, additional accounting services to have these records put in an auditable condition.

The responsibility for obtaining the audit and engaging the services of an independent auditor (approved by CalHFA) may not be delegated. Although the management agent may provide the names of auditors who may be interested in the professional engagement, the actual contractual relationship should be between the owner and the auditor. In the course of the audit, the auditor is to determine if the management agent has performed in accordance with the requirements of the management agreement and, where applicable, with the provisions of the Regulatory Agreement.

The First Audit

The first audit may be as of the end of the full operating year or for a period not exceeding eighteen months. Thus, if the development is completed in the month of June and the first occupancy is July 1st, the organization that maintains its records on a calendar year basis would have the audit performed as of the end of the next fiscal year and thus include eighteen months instead of six. However, an audit for six months may be warranted and may be requested by CalHFA.

Organization costs should be expensed as incurred rather than amortized over 60 months, in accordance with SOP 98-5.

Separate Financial Statements

Where the entity that owns the development has other programs and projects, only the separate operations of the CalHFA financed project are required to be shown as a separate financial statement. For example, there may be a non-profit organization that provides other services or owns other developments. Such an organization may obtain an organization-wide audit but will nevertheless be required to prepare separate financial statements for the CalHFA financed project.

Distributions to Owners

The Regulatory Agreement defines allowable distributions and allowances for developments. Developments are not allowed to make distributions to owners until the financial statements have been accepted by CalHFA and CalHFA has authorized the distribution. Such distributions include but are not limited to fees to the owners that are not part of operations (i.e. developer fees, incentive management fees, asset management fees, predevelopment fees, etc.).

ENGAGEMENT OF THE AUDITOR

The owner should engage the services of an Independent Auditor (auditor), satisfactory to CalHFA, well in advance of the end of the fiscal year. Although prior experience in performing CalHFA or similar type audits is advantageous, any independent accountant licensed in California may be selected to perform the audit.

The owner should select an auditor that is qualified to perform and complete the audit in a professional and timely manner. Failure to perform the audit in accordance with CalHFA requirements may result in additional expense to the owner.

A long-term relationship with an auditor may be of benefit. However, CalHFA requires that the auditor be independent. The auditor should not be responsible for the preparation or the maintenance of the project's basic accounting, financial records, or for creation of a trial balance. The auditor must be careful not to construct the owner or management agent's records. It may not be appropriate for the auditor to perform nonaudit services for the owner or management agent. Personnel who performed certain nonaudit services may be precluded from performing related audit work. The owner or management agent should maintain the management functions and make management decisions. The accountant that regularly performs bookkeeping or computer services for the owner or the management agent may not perform the audit.

In selecting an auditor, the owner should consider cost as one of several factors to be taken into consideration. Other factors should be knowledge and reputation as evidenced by prior performance.

The owner should analyze the costs and performance of an auditor/ auditing firm that has been engaged for five consecutive years. The owner may be required to competitively bid auditor/audit firms in lieu of the aforementioned analysis or the failure on the part of the owner to perform such an analysis.

Engagement Contract

Engagements for audit services should be evidenced by a written agreement. This agreement may be in the form of a letter provided by the licensed independent auditor. The owner is responsible for providing CalHFA an executed engagement letter of audit services to be performed within thirty days of the fiscal year end. The following terms and conditions must be included in the engagement contract:

1. The auditor will perform the audit in accordance with GAAS, *Government Auditing Standards* and the requirements of the *Audited Financial Statement Handbook for Multi-Family Rental Housing Financed by the California Housing Finance Agency*.

2. The audit will be completed and the financial statements are to be submitted within sixty days of the end of the fiscal year, unless extended by CalHFA.

Note: If the financial statements will not be completed within the sixty days required by CalHFA, a letter from the owner requesting an extension of *time* is required to assure CalHFA that the financial statements are forthcoming. If they cannot be delivered within 60 days, the owner should consult with CalHFA staff to determine a proper course of action.

3. Audit documentation will be made available upon request by the owner or CalHFA for inspection by an authorized representative for a period of at least three years after completion of the audit.

4. The fee for which the audit will be performed should be stated. (Although the fee may be stated in terms of rates to be used in computation of the amount, the fee range or a maximum amount which is not to be exceeded without prior approval by the owner should be indicated in this contract).

Audit Fee

Audit fees vary considerably depending on the condition of the accounting records, the experience of personnel responsible for bookkeeping, the extent of internal accounting controls and other factors. A fee in excess of the amount included in the CalHFA approved annual operating budget may not be paid from the project funds without the prior written approval of CalHFA. Where the additional fee is due to poor record keeping, the additional expense will either be absorbed by the management agent or paid from the owner entity's own funds.

CalHFA will approve audit fees in the annual operating budget based on reviews of the range of reasonable fees charged for similar projects. When owner-proposed amounts appear excessive, or there have been past timing or compliance problems, CalHFA may require a review of the auditor selection process.

The cost of providing tax advice to the owner should not be charged to the project. Cost of the professional services including the audit, may include the preparation of tax returns for the project itself, i.e., partnership or corporation returns where the project is the principal asset of the entity, but may not include the determining of alternative treatments of complex issues, the resolution of which is of primary benefit to owners rather than project operations.

INDEPENDENT AUDITOR'S RESPONSIBILITIES

Performance Standards and Requirements

The audit is to be performed in accordance with GAAS and *Government Auditing Standards* (Yellow Book). The auditor should establish an understanding with the client regarding the services to be performed for each engagement, be qualified, and have current knowledge of the applicable auditing standards. The auditor must have an appropriate quality control system in place and undergo an external quality review (within three years of starting a Yellow Book audit). Upon completion of the audit the auditor is to provide a report on the basic financial statements, report on supplementary information and a report on the compliance and internal control over financial reporting. The auditor is also required to provide a schedule of audit findings, comments and recommendations.

The auditor is required to maintain independence from the owner in accordance with the Yellow Book. The auditor should not be responsible for the preparation or the maintenance of the project's basic accounting, financial records, or for creation of a trial balance. The auditor must be careful not to construct the owner's records and should avoid nonaudit activities that may impair independence pursuant to *Government Auditing Standards*. Notwithstanding the foregoing the Auditor who performs the audit functions can prepare Tax Returns for the entity.

Auditors shall be alert to situations or transactions in non-compliance with the Regulatory Agreement or indications of waste, fraud, abuse, illegal expenditures and acts.

The auditor should notify CalHFA immediately if a scope limitation is placed upon the auditor in the course of performing the audit.

If the audited entity is a non-profit, local government or other governmental organization, audits must be performed in accordance with the Single Audit Act of 1986, the Office of Management and Budget (OMB) Circular A-133, *Government Auditing Standards* as well as their amendments and revisions updated in 1994, 1996, 1997 and 2003 in addition to the requirements listed in this Handbook.

Independent Auditor's Report on Supplementary Information

The auditor's report on required supplemental information may be either presented separately as part of the supplemental section of the report or included as a separate paragraph of the auditor's report on the financial statements.

Independent Auditor's Report on Compliance and on Internal Control

A report on compliance with the laws, regulations and agreements is also required. Compliance tests are required during the audit. Auditors should be familiar with the terms of the Regulatory Agreement with CalHFA prior to commencing the audit and should note any non-compliance that comes to their attention while testing transactions or examining accounts.

The auditor's responsibility for the examination of tenant files is limited to those matters that would have a material effect on the financial position of the project. The auditor should consider that it is the responsibility of CalHFA staff to periodically review these files and report any non-compliance. If during the limited tests performed, the auditor becomes aware of a condition that requires attention, this condition should be reported to the owner and directly to CalHFA. Any non-compliance or condition that in the opinion of the auditor should be improved, are to be included in the report or as a schedule included in the report.

The auditor is required to gain an understanding of internal accounting controls in order to plan the audit and to determine the extent of tests that may be required in order to carry out the audit. In connection with a small organization, the extent of internal control may require testing a larger percentage of transactions than in instances where the client is a larger organization wherein there is a division of duties and other appropriate controls. Regardless of project size, the independent auditor should document how accounting records are maintained, support for accounting entries and other routine auditing procedures as determined appropriate by the auditor's professional judgment. Lack of supporting documentation or failure to maintain the records properly should be noted as a "finding" or otherwise included in the report. If the accounting performed does not result in accurate records from which financial statements can be prepared in accordance with GAAP, this would constitute a material weakness. A material weakness is a condition in which the design and operation of one or more of the internal controls does not reduce to a relatively low level the risk that misstatements that would be material may occur and may not be detected within a timely period by employees in the normal course of performing their assigned functions. Existence of a material weakness could preclude the issue of an unqualified report by the auditor.

If the auditor believes the owner would benefit from a Management Letter, it should be prepared and reference to it should be noted in the internal control report. A copy of this Management Letter should be sent to CalHFA, or included with the financial report. (See Appendix A for sample report.)

The Management Letter may include representations that are deemed necessary by the auditor with regards to compliance with the Regulatory Agreement and other imposed guidelines and/or the audited entity's internal control.

Basic Financial Statements

The basic financial statements are to be presented in comparative format. The statement of cash flows is to be prepared on the direct method. Supplemental information need not be comparative. If the statements are not on a basis consistent with those of the prior year this should be explained fully in the Opinion and/or the Notes to the Financial Statements.

The Notes to the Financial Statements should include information concerning the project, including the number of units, the year it was constructed, and the nature of the agreements with CalHFA and others. Full disclosure also requires that the notes contain information on the accounting methods used to report income and expenses, valuation of assets and methods used to compute depreciation and related party transactions. If the project is owned by a partnership, the material conditions or terms of the partnership agreement may also be required and any fees payable by the partnership to a developer or others should be disclosed. If owned by a public benefit corporation, the status as a non-profit organization should also be disclosed.

Supplementary Information

CalHFA requires that the financial statements provide sufficient information for staff to compare operations from year to year and to compare budget to actual each year. Unless specifically excluded, the following supplementary information is required:

1. Cash on hand and in bank - The cash funds and separate bank accounts should be identified. The general operating account, unrestricted cash and other accounts are to be shown separately from restricted accounts. The amounts shown should agree to the totals shown on the Balance Sheet in the basic financial statements and, if applicable, the surplus cash computation.

2. Tenant security deposits – Security deposits for non-Section 8 properties may be treated differently than Section 8 developments.

   If applicable for Section 8 developments, separate bank accounts for security deposits should be confirmed and a statement made whether interest earned on these deposits is restricted and credited to a liability account to be refunded or applied for the benefit of tenants. Where applicable, a statement should be made to the effect that interest is being applied to the tenant association in accordance with waivers signed by the tenants.

   For non-Section 8 properties applicable law or regulation may provide different handling and security deposit accountability. The auditor should disclose security deposits on hand, and the treatment of interest earned.

3. Accounts receivable – The amounts due from tenants and others should be shown separately. The schedule shown in supplementary information should provide information concerning balances outstanding over 60, 90 and 120 days.

4. Mortgage impound accounts – a schedule of changes in the separate mortgage impound accounts should be shown.

5. Replacement reserves - The amounts on deposit as of the beginning and end of the year and the detail concerning changes in this account should be shown.

CalHFA holds the replacement reserve for each development. The uses of the replacement reserve are stated in the Regulatory Agreement which may be clarified by the property management manual or other written clarifications by CalHFA. However, in the event withdrawals from the replacement reserve are not covered by the aforementioned documents, there should be written approval from CalHFA.

6. Property, equipment and improvements - A schedule should be included that discloses the amounts included in these accounts and the changes during the current year.

7. Other asset accounts - A schedule is required for other asset accounts, the nature of which is not readily determinable as shown in the basic financial statements.

8. Accounts payable and accrued expenses – A schedule is required for non-current accounts payable. Amounts payable in excess of 30 days should be stated separately. If there are no amounts in excess of this period, this should be indicated.

9. Other payables - If there are amounts payable, the nature of which are not readily determinable as shown in the basic financial statement, a schedule may be required.

10. Gross potential rent – Where applicable, the supplementary information should show the detail of gross potential rent, including amounts received or receivable from tenants, subsidy payments, staff apartments and vacancy loss.

11. Management fee – The computation of the fee is to be shown where the amount of the fee is calculated as a percentage of the rents. Where the computed fee amount does not agree with the budgeted amount per the operating budget, the fee computation is to be shown as part of the supplementary information.

12. Accumulated limited distributions and earned surplus - Where applicable, a statement is required which provides the amount of allowable limited distributions and the amount of prior period unpaid limited distributions, if any. Entity fees and expenses that are not part of project expenses, such as developer fees, incentive management fees, asset management fees, and partnership management fees are to be considered as distributions to owner. Payments for these non-project expenses must first be approved by CalHFA. Often the Regulatory Agreement requires that if there is surplus cash remaining after payment of a limited distribution, the balance is to be remitted to CalHFA to be applied first to the reserve fund for operations (maximum balance to equal 5% of annual gross potential rent at fiscal year end). Any remaining balance is earned surplus. This calculation should be disclosed in the financial statements.

13. Surplus cash calculations – Please refer to the Regulatory Agreement of the project to determine the surplus cash calculation as there are variations between projects.

The supplementary information must include a computation of surplus cash as stated in the Regulatory Agreement.

In general, “Surplus Cash” is the balance of Gross Income of the Development remaining at the end of each fiscal year after payment of Operating Expenses (as defined in the Regulatory Agreement of the development), Agency approved operating expense loans, and current payables (except the amount of the next non-delinquent mortgage payment). For the purpose of computing Surplus Cash, Gross Income of the Development shall include any rent insurance proceeds, but shall exclude fire or other insurance proceeds, condemnation proceeds, and any security deposit which shall not have become the property of the Development (Borrower) free of the claim of any person claiming as or through the tenant having made such deposit.

Factors that must be considered in computing surplus cash:

a) Do not include the next non-delinquent mortgage payment.

b) Over or under funded impound accounts <u>should not be</u> included in calculation of surplus cash.

c) Do include Reserve Fund for Operations when the Regulatory Agreement provides for one in the calculations.

d) Do not include Operating Expense Reserve, Operating Reserve or other reserve category designations not explicitly mentioned to be included in Surplus Cash calculations according to the Regulatory Agreement for the development.

e) Security deposits, whenever included in asset category, should be offset by security deposit liability.

14. <u>Accumulated limited distributions</u> – Where applicable, a calculation should be disclosed which provides the amount of allowable limited distribution and the amount of prior period unpaid limited distributions, if any. If there is surplus cash remaining after payment of a limited distribution and, if required by the Regulatory Agreement, the balance is to be remitted to CalHFA to be applied first to the Reserve Fund for Operations.

Where applicable the Reserve Fund for Operations is held by CalHFA and is funded and maintained by the borrower at 5% of the Gross Potential Rent. This account may earn interest and the interest earned while included in calculating surplus cash, is not included in calculating Earned Surplus as defined in the Regulatory Agreement.

There are non-Section 8 developments with distribution limits as well as provisions for accumulating distributions. The auditor should refer to the property's Regulatory Agreement.

15. Tenants' income and rent - The auditor will conduct sampling and tests on the CalHFA units to determine compliance with the rent increase and tenant certification process contained within the CalHFA Regulatory Agreement (Qualified Tenants Rent Increase Procedure). The auditor should disclose findings of noncompliance in the Supplemental Section of the Audited Financial Statements.

Sample Financial Statements

Included in this Handbook are sample financial statements that have been prepared in a manner that is acceptable to CalHFA, and the supplementary information that is required where applicable. The auditor should use the format that provides basic financial statements that comply with GAAP and is applicable to the entity being presented. The AICPA has published audit and accounting guides for non-profit and governmental organizations. For most developments, the financial statements will generally be comparable to those shown in Appendix A.

Audit Program

The auditor is to use any audit program which is applicable to housing programs or may develop a program for the specific engagement. The auditor is to exercise professional judgment in preparing the audit program and in selecting the nature and extent of the audit tests to be used during his or her audit engagement.

Treatment of Accrued Interest Regarding Housing Assistance Payments

For some developments with project based Section 8, CalHFA collects the housing assistance payments from HUD in advance each month based on monthly estimated subsidy requirements and applies amounts received against the debt service requirements of the mortgage note payable. The interest payable the first day of the succeeding month is generally prepaid; thus, there is no accrued interest as of the balance sheet date. The confirmation of the mortgage and impound balances by the Sacramento office of CalHFA will indicate if there are delinquent mortgage payments receivable from the project and the date when the last payment was received.

CalHFA RESPONSIBILITIES

Tenant Eligibility and Rent Increases

The CalHFA Asset Management Division is responsible for monitoring the operations of developments that receive financing through CalHFA. Staff members make on-site inspections and review financial information that is provided by the owner or management agent. Projects receiving housing assistance payments and other types of subsidy programs are required to maintain tenant file information to indicate that the owner has complied with the Regulatory Agreement. Although the auditor should determine that files are being maintained, CalHFA staff has the primary responsibility for the examination of tenant files and determination of tenant eligibility for housing assistance payments or other rental subsidy programs.

CalHFA monitors occupancy and tenant eligibility through its certification processes for developments that are not party to FHA/HUD multifamily program participation (as identified in the Regulatory Agreement).

Project Management

CalHFA staff reviews housing assistance payment vouchers, reviews periodic reports and monitors the operation of the developments to assure that sound management practices are followed. Through on-site inspections and review of reports from the development, the property management staff ensures that resources are available to promote decent, safe and marketable housing during the term of the loan.

CalHFA staff in Sacramento will provide the auditor with a confirmation of the balances of the loan payable, impound accounts and the reserve for replacements. In order to request the confirmation the auditor should obtain a letter signed by the client authorizing CalHFA to confirm the aforementioned balances directly to the auditor. The authorization letter should be addressed to CalHFA at:

Attn: Multifamily Loan Accounting (MFLA) Department
California Housing Finance Agency
1121 L Street, 7th Floor
Sacramento, CA 95814
Attn: Loan Officer

Impound accounts and the reserve for replacements are invested for the benefit of the owner. As of the date of confirmation, interest earned to June 30th or December 31st may not have been recorded, and should, when applicable, be accrued to that date and shown as accrued interest.

Audit Report

Upon receipt of the audited financial statements, CalHFA staff will review these to determine that they have been prepared in accordance with the requirements of this handbook. If a material problem cannot be resolved, CalHFA will contact the owner or may not accept the financial report.

FINANCIAL STATEMENTS

Multifamily housing financed by CalHFA may be owned by different types of entities. The auditor must obtain a copy of the Regulatory Agreement in order to determine specific requirements that may be applicable to each. The financial statement format, disclosures and supplementary data required may vary depending on whether the auditor is dealing with (1) a non-profit public benefit corporation, (2) a cooperative, mutual benefit corporation, (3) a governmental entity or (4) a profit motivated corporation or partnership.

Headings should be consistent with the type of entity being audited – for example the term “Balance Sheet” should be replaced with “Statement of Financial Position” for a non-profit entity.

Principal differences are generally format, reserve requirements and allowable distributions. Distributions are generally allowable only in the case of profit motivated partnerships or corporations and may be limited to six percent or ten percent of owner’s initial equity. Refer to the CalHFA Regulatory Agreement for guidance on distributions.

The format of the financial statements, when in conformance with GAAP, may be acceptable for general distribution to investors, partners and others. Also, the financial statements must provide additional information as set forth in this Handbook. The information required should follow the order in which it appears in the appendices of this Handbook.

Special attention should be paid to the computation of surplus cash and its appropriate distribution where applicable. When accounts payable and accrued expenses as shown in that computation differ from the amounts shown on the general purpose financial statements, an explanation will be required. Cash balances that are required to be scheduled separately should include an explanation as to the nature of the cash account.

EXAMPLE APARTMENTS COMPANY

CalHFA Project No. XXXX

FINANCIAL STATEMENTS
With accompanying information required by the California Housing Finance Agency

FOR THE YEARS ENDED DECEMBER 31, 200Y AND DECEMBER 31, 200X

and

INDEPENDENT AUDITOR'S REPORT

CONTENTS

Financial Statements

XYZ & Co.
Certified Public Accountants
101 Main Street
Any City, California

The Partners of
Example Apartments Company:

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying balance sheets of Example Apartments Company, a California Limited Partnership, CalHFA No. XXXX as of December 31, 200Y and 200X and the related statements of operations, changes in partners' capital (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the project's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States and the requirements of the *Audited Financial Statement Handbook for Multi-Family Rental Housing Financed by the California Housing Finance Agency*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Example Apartments Company, a California limited partnership, as of December 31, 200Y and 200X, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* and the *Audited Financial Statement Handbook for Multi-Family Rental Housing Financed by the California Housing Finance Agency*, we have also issued reports dated February 1, 200Z, on our consideration of internal control of Example Apartments Company and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and the *Audited Financial Statement Handbook for Multi-Family Rental Housing Financed by the California Housing Finance Agency* which should be read in conjunction with this report in considering the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information shown on pages A-17 through A-28 is presented for purposes of additional analysis and is not a required part of the basic financial statements of Example Apartments Company. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

February 1, 200Z
Any City, California

EXAMPLE APARTMENTS COMPANY
BALANCE SHEETS
December 31, 200Y and 200X

	200Y	200X
ASSETS		
Current assets		
Cash and cash equivalents	$	$
Tenant accounts receivable		
Rent subsidies receivable (*a.*)		
Other accounts receivable (*b.*)		
Interest receivable		
Prepaid expenses		
Restricted funds		
Tax impound account (*c.*)		
Insurance impound account (*c.*)		
Tenants' security deposits (*d.*)		
Reserve funds for operations *(e.)*		
Reserve for replacements *(e.)*		
Operating Expenses Reserves (when applicable)*(e.)*		
Transition Operating Reserve (when applicable)*(e.)*		
Total current assets		
Property, equipment and improvements net of accumulated depreciation		
Intangible assets net of accumulated amortization		
Total other assets		
TOTAL ASSETS	$	$

see accompanying notes

EXAMPLE APARTMENTS COMPANY
BALANCE SHEETS
December 31, 200Y and 200X

	200Y	200X
LIABILITIES AND PARTNERS' CAPITAL (DEFICIT)		
Current liabilities		
Current portion of long term debt	$	$
Accounts payable and accrued expenses		
Prepaid rent (*a.*)		
Accrued interest		
Tenants' security deposits (*d.*)		
Total current liabilities		
Mortgage payable, net of current portion		
Total long-term debt		
Partners' capital (deficit)		
Total partners' capital (deficit)		
TOTAL LIABILITIES AND PARTNERS' CAPITAL (DEFICIT)	$	$

see accompanying notes

EXAMPLE APARTMENTS COMPANY
STATEMENTS OF OPERATIONS
For the Years Ended December 31, 200Y and 200X

	200Y	200X
Income		
Gross potential rents (*f.*)	$	$
Less vacancy loss		
Total rental income		
Interest income		
Laundry income		
Commercial income		
Other income		
Total other income		
Total income		
Operating expenses		
Administrative		
Insurance and taxes		
Payroll		
Operating and maintenance		
Utilities		
Total operating expenses		
Net operating income (loss)		
Other expenses		
Interest		
Depreciation		
Amortization		
Partnership management fee *(g.)*		
Asset management fee *(g.)*		
Incentive management fee *(g.)*		
Total other expenses		
Total expenses		
Net income (loss)	$	$

see accompanying notes

EXAMPLE APARTMENTS COMPANY
STATEMENTS OF CHANGES IN PARTNERS' CAPITAL (DEFICIT)
For the Years Ended December 31, 200Y and 200X

	General Partner 1.01%	Limited Partner 98.99%	Total 100.00%
Balance, January 1, 200X	$	$	$
Contributions/Distributions 200X			
Net income (loss) 200X			
Balance, December 31, 200X			
Contributions/Distributions 200Y			
Net income (loss) 200Y			
Balance, December 31, 200Y	$	$	$

see accompanying notes

EXAMPLE APARTMENTS COMPANY
STATEMENTS OF CASH FLOW
For the Years Ended December 31, 200Y and 200X

	200Y	200X
Cash flows from operating activities		
Rental receipts	$	$
Interest receipts		
Other receipts		
Administrative expenses paid		
Management fees paid		
Utilities paid		
Salaries and wages		
Operating and maintenance expenses paid		
Real estate taxes paid		
Payroll taxes paid		
Property insurance paid		
Miscellaneous taxes and insurance paid		
Interest on mortgage note paid		
Miscellaneous financial expenses paid		
Tenant security and other deposits		
Net cash provided (used) by operating activities		
Cash flows from investing activities		
Purchase of depreciable assets		
Decrease (increase) in		
Reserve for replacement of depreciable assets		
Reserve for taxes and insurance		
Net cash provided (used) by investing activities		
Cash flows from financing activities		
Mortgage principal payments		
Cash distributions paid to partners		
Net cash provided (used) by financing activities		
Net increase (decrease) in cash		
Cash and cash equivalents - beginning of period		
Cash and cash equivalents - end of period	$	$

see accompanying notes

EXAMPLE APARTMENTS COMPANY
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 200Y and 200X

	200Y	200X
Reconciliation of net income (loss) to net cash provided by operating activities	$	$
Net income (loss)		
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities		
Depreciation		
Decrease (increase) in		
Reserve funds for operations		
Tenant accounts receivable		
Rent subsidies receivable		
Other accounts receivable		
Interest receivable		
Prepaid expenses		
Increase (decrease) in		
Accounts payable and accrued expenses		
Prepaid rent		
Accrued interest		
Tenants' security deposits		
Net cash provided (used) by operating activities		
	$	$
SUPPLEMENTAL DISCLOSURE		
Cash paid during the year for interest	$	$

see accompanying notes

EXAMPLE APARTMENTS COMPANY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 200Y and 200X

1. Organization

Example Apartments Company, a California limited partnership (the "Partnership"), was organized in 199X to acquire an interest in real property located in Any City, California and to construct and operate thereon an apartment complex of XX units for families of low to moderate income. Mortgage financing was provided by CalHFA. Such projects are regulated under terms of a Regulatory Agreement and a Housing Assistance Payments contract with CalHFA, including rent charges, operating methods and other matters.

From March 25, 199X to December 31, 199X, the general partner was EFG Corporation, a California nonprofit public benefit corporation (the "General Partner") and the limited partner was QRS Properties, LLC, a California limited liability company. On December 31, 199X, QRS Properties, LLC withdrew from the partnership, and JKL Limited Partnership, a California limited partnership, was admitted as the limited partner (the "Limited Partner"). As of December 31, 200Y and December 31, 200X, the General Partner was EFG Corporation and the JKL Limited Partnership was the Limited Partner.

Pursuant to the First Amended and Restated Agreement of Limited Partnership (the "Partnership Agreement"), dated August 1 199X, profits from operations and losses from non-recourse deductions and low-income housing tax credits in any one year shall be allocated 98.99% to the Limited Partner and 1.01% to the General Partner.

Pursuant to the Partnership Agreement, the Limited Partner is required to provide capital contributions totaling $_____ over four installments. Pursuant to the Partnership Agreement, these contributions were subject to adjustments based on the amount of low-income housing tax credits ultimately allocated to the Project in addition to other potential occurrences. As of December 31, 200Y and 200X, the Limited Partner capital contributions totaled $_____ for both years.

2. Summary of significant accounting policies

Accounts receivable
It is the practice of the Partnership to expense uncollectibles only after exhausting all efforts to collect the amounts due. No allowance for doubtful accounts is used and management believes all amounts will be collected in full.

Cash and cash equivalents
Cash and cash equivalents, include all cash balances and highly liquid investments with a maturity of three months or less.

EXAMPLE APARTMENTS COMPANY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 200Y and 200X

2. Summary of significant accounting policies (continued)

Concentrations of credit risk
The Partnership deposits its cash in financial institutions. At times, deposits may exceed federally insured limits. The Partnership has not experienced any losses in such accounts.

Deferred income and prepaid rents
Deferred income is defined as income received prior to the performance or to which the income is earned and is recorded as a liability. Deferred income is reduced annually for the portion of the income earned.

Economic concentrations
The Partnership operates one property located in Any City, California. Future operations could be affected by changes in the economic or other conditions in that geographical area or by changes in federal low-income housing subsidies or the demand for such housing.

Impairment of long-lived assets
The Partnership reviews its investment in long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the rental property including the low-income housing tax credits and any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount exceeds fair market value as determined from an appraisal, discounted cash-flow analysis, or other valuation technique. There were no impairment losses recognized during the years ended December 31, 200Y and December 31, 200X, respectively.

Income taxes
The Partnership is a limited partnership and, accordingly, no provision is made for federal or state income taxes which are the responsibility of the individual partners.

Intangibles
Permanent loan fees of $_____ are amortized on a straight-line basis over the XX year term of the permanent loan. The accumulated amortization as of December 31, 200Y and December 31, 200X was $_____ and $_____, respectively. The amortization expense for the year ended December 31, 200Y and December 31, 200X was $_____ and $_____ respectively.

EXAMPLE APARTMENTS COMPANY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 200Y and 200X

2. Summary of significant accounting policies (continued)

Method of accounting
The accrual method of accounting is used, which method reflects revenue when earned which may be prior to receipt, and expenses as incurred which may be prior to payment. Rental income reflects the gross potential rent that may be earned. Vacancies are shown separately as a reduction in rental income and the contract rent applicable to the units occupied by employees of the development is shown as expense. For purposes of reporting, cash flows, cash and cash equivalents include unrestricted cash on hand and cash in bank.

Property, equipment and improvements
Property, equipment and improvements are recorded at cost. Property costs are depreciated under the straight-line method over 27.5 years. Improvements are depreciated under a declining-balance method over their estimated useful lives of 15 years. Equipment is depreciated under a declining-balance method over estimated useful lives of seven or five years. The depreciation expense for the year ended December 31, 200Y and December 31, 200X was $_____ and $_____, respectively.

Revenue recognition
Rental revenue attributable to residential leases is recorded when due from residents, generally upon first day of each month. Leases are for periods of up to one year, with rental payments due monthly. Other revenue includes fees for late payments, cleaning, damages, laundry facilities and other charges and is recorded when earned.

Use of estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

3. Restricted funds

As required by the Regulatory Agreement with CalHFA, the Partnership is required to make monthly impound deposits to cover insurance premiums, property taxes and to maintain a reserve for replacements. These restricted funds are held by CalHFA and expenditures are subject to supervision and approval by CalHFA.

EXAMPLE APARTMENTS COMPANY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 200Y and 200X

4. Mortgage payable

The mortgage is payable to CalHFA in monthly installments of $_____, including interest at XX% per annum, with the final payment in the year 202X and is secured by real property. Interest expense on the mortgage note payable for the year ended December 31, 200Y and December 31, 200X was $_____ and $_____ respectively. As of December 31, 200Y, and December 31, 200X, accrued interest on the mortgage note payable was $_____ and $_____, respectively.

Future payments on the mortgage are due are as follows:

200A	$
200B	
200C	
200D	
200E	
Thereafter	
Total	$

5. Distributions due to partners

The Regulatory Agreement with CalHFA limits the maximum annual distributions to partners at $_____ representing six percent of "initial equity investment" as determined at completion of the project in 199X. Such distributions are payable only from "surplus cash", but accumulate and may be distributed to the extent surplus cash is generated from future operations.

Surplus cash was $_____ at December 31, 200Y and $_____ at December 31, 200X. [Disclose the portion of surplus cash to be paid to a secondary financing agency, if applicable.]

The Partnership Agreement specifies distributions of profits and losses from operations and cash distributions equal to net cash flow, be distributed in proportion to the profit and loss interest of the partners. These distributions are payable only to the extent that surplus cash is available and, as provided by the Regulatory Agreement, may not exceed $_____.

The Partnership Agreement also provides for the amounts and priorities of distributions to partners upon the occurrence of certain specified events such as the sale of the property, refinancing of the mortgage and dissolution of the partnership.

EXAMPLE APARTMENTS COMPANY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 200Y and 200X

6. Contingencies and commitments

The land upon which the project has been constructed was acquired from the city of Any City subject to retention by the City of an option to acquire the property for $1.00 after completion of full payment of principal and interest due under the loan from CalHFA. Should the City choose not to exercise this option, the Partnership is obligated to pay the City $_____ in payments of $_____ annually.

Management has entered into agreements during December of 200Y to replace portions of the roofing. This contract is for $_____ and work is to be performed during May and June of 200Y.

7. Related party transactions, allocations and prorations

Pursuant to the Partnership Agreement, the General Partner is entitled to a partnership management fee in the amount of $_______. The fees incurred for the year ending December 31, 200X and December 31, 200Y was $_______ and $_______ respectively. As of December 31, 200X and December 31, 200Y, $_______ and $_______ respectively is payable to the General Partner.

Pursuant to the Partnership Agreement, the General Partner is entitled to an incentive management fee in the amount of $_______. The fees incurred for the year ending December 31, 200X and December 31, 200Y was $_______ and $_______ respectively. As of December 31, 200X and December 31, 200Y, $_______ and $_______ respectively is payable to the General Partner.

Pursuant to the Partnership Agreement, the Limited Partner is entitled to an asset management fee in the amount of $_______. The fees incurred for the year ending December 31, 200X and December 31, 200Y was $_______ and $_______ respectively. As of December 31, 200X and December 31, 200Y, $_______ and $_______ respectively is payable to the Limited Partner.

Note: Unless otherwise indicated in the CalHFA Regulatory Agreement, expenses not defined in the CalHFA Regulatory Agreement as operating expenses are paid from Surplus Cash generated by the Development.

8. Low-Income Housing Tax Credits

The Partnership expects to generate an aggregate of $_________ of federal low-income housing tax credits ("Tax Credits"). Generally, the Tax Credits became available for use by its partners on a pro-rata basis over a ten-year period, which began in 200X. In order to qualify for such Tax Credits, the project must comply with various federal compliance and state agency regulatory requirements. These requirements include, but are not limited to, renting to low-income tenants at rental rates which do not exceed specified percentages of area median gross income for the first 15 years of operation of the Project. The Partnership also has agreed to maintain and operate the Project as low-income housing for another X years after the 15-year compliance period ends. Because the Tax Credits are subject to complying with certain requirements, there can be no assurance that the aggregate amount of Tax Credits will be realized and failure to meet all such requirements may result in generating a lesser amount of Tax Credits than the expected amount.

SUPPLEMENTARY INFORMATION

XYZ & Co
Certified Public Accountants
101 Main Street
Any City, California

The Partners of
Example Apartment Company:

AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

We have audited the financial statements of Example Apartments Company, a California Limited Partnership, CalHFA Project No. XXXX as of and for the years ended December 31, 200Y and 200X, and have issued our report thereon dated February 1, 200Z. Our audits were made in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States, and for purposes of this report, the standards for financial and compliance audits contained in the *Audited Financial Statement Handbook for Multi-Family Rental Housing Financed by the California Housing Finance Agency*, and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

February 1, 200Z
Any City, California

Note: The report on supplementary information may be included in the report on the basic financial statements; in which case the scope paragraph of that report should make reference to the additional requirements as indicated above.

EXAMPLE APARTMENTS COMPANY
SUPPLEMENTARY INFORMATION REQUIRED BY THE
CALIFORNIA HOUSING FINANCE AGENCY
For the Years Ended December 31, 200Y and **200X**

Cash on Hand and in Banks (*h.*)

	200Y	200X
Unrestricted accounts		
Cash on hand	$	$
Checking account		
Other (identify)		
Total unrestricted accounts	$	$
Restricted accounts		
Tenant security deposits - checking	$	$
Tenant security deposits – certificate of deposits (i.)		
Total restricted accounts	$	$

Tenant security deposits are maintained in separate accounts and interest earned on these deposits is credited to a liability account to be refunded or applied for the benefit of tenants. Interest earned was $_____ of which $_____ was paid to the tenants' association and $_____ was credited to tenants' accounts. Waivers are on file pertaining to payments to the tenants' association.

Accounts Receivable

Accounts receivable consists of $_____ due from tenants, of which $______ is less than 30 days old and $______ is in excess of 120 days old. The latter amount pertains to tenants.

EXAMPLE APARTMENTS COMPANY
SUPPLEMENTARY INFORMATION REQUIRED BY THE
CALIFORNIA HOUSING FINANCE AGENCY
For the Years Ended December 31, 200Y and **200X**

Mortgage Impound Accounts (*j*.)

	Taxes	Property Insurance	Earthquake Insurance
Balances, December 31, 200X	$	$	$
Monthly deposits			
200X interest applied January 200Y *(k.)*			
Payments for taxes and insurance			
Balances, December 31, 200Y	$	$	$

Reserve for Replacements/Reserves

In accordance with the provisions of the Regulatory Agreement, restricted cash and investments are held by the California Housing Finance Agency to be used for replacements of property or other reserve requirements with the approval of CalHFA as follows:

	Reserves For Replacements	Transitional Operating Reserve	Operating Expense Reserve	Other Reserve
Balance FYE 200X				
Deposits "x" months Times "x' Amt.				
One Time Deposit				
Transfers in Or out				
Withdrawals				
Interest Earned *(k.)*				

Balance
FYE 200Y ___________ ___________ ___________ ______

Note: will tie into amounts in balance sheet

Balance, January 1, 200Y	$
Monthly deposits of $_____	
Interest earned to December 31, 200Y (*k*.)	
Withdrawals,	_____________
Balance, December 31, 200Y	$
Confirmed by mortgagee	$

EXAMPLE APARTMENTS COMPANY
SUPPLEMENTARY INFORMATION REQUIRED BY THE
CALIFORNIA HOUSING FINANCE AGENCY
For the Years Ended December 31, 200Y and **200X**

Property, Equipment and Improvements

Following are the details of property, equipment and improvements, at cost.

	Land and Offsite Improvements	Buildings and Improvements	Furniture and Equipment	Total
Balance, January 1, 200X	$	$	$	$
Additions 200X				
Dispositions of asset				
Balance, December 31, 200X				
Additions 200Y				
Dispositions of asset				
Balance, December 31, 200Y	$	$	$	$

EXAMPLE APARTMENTS COMPANY
SUPPLEMENTARY INFORMATION REQUIRED BY THE
CALIFORNIA HOUSING FINANCE AGENCY
For the Years Ended December 31, 200Y and **200X**

Accounts Payable and Accrued Expenses

Accounts payable are payable to suppliers and are being paid on a current basis. [If not current provide details.]

Gross Potential Rents

	200Y	200X
Gross potential rent includes		
Tenant rental payments	$	$
Housing assistance payments		
Employee quarters shown as an expense		
Vacancy loss		
Total gross potential rent (*l.*)	$	$

Management Fee

If the amount of the management fee does not agree with the operating budget, the computation of the fee should be shown here.

EXAMPLE APARTMENTS COMPANY
SUPPLEMENTARY INFORMATION REQUIRED BY THE
CALIFORNIA HOUSING FINANCE AGENCY
For the Years Ended December 31, 200Y and **200X**

Surplus Cash Computation (*m.*)

	200Y	200X
Add		
Cash on hand and in banks	$	$
Housing Assistance subsidy receivable		
Reserve funds for operations		
Other receivables (*n.*)		
Tenant security deposit		
Total		
Less – current obligations		
Accounts payable and accrued expenses (due within 30 days)		
Delinquent mortgage payments		
Accrued mortgage interest		
Prepaid HAP (unearned HAP)		
Prepaid rents (unearned income)		
Delinquent impound payments		
Tenant security deposits		
Total		
Surplus cash end of year	$	$
Owner distribution allowed under the Regulatory Agreement with CalHFA	$	$

Accumulated Limited Distributions (*o.*)

	200Y	200X
Allowable accumulated limited distribution at beginning of the year	$	$
Less distributions paid during year		
Current year owner distribution allowed per "surplus cash" computation		
Accumulated limited distributions, payment subject to prior approval by CalHFA	$	$

EXAMPLE APARTMENTS COMPANY
SUPPLEMENTARY INFORMATION REQUIRED BY THE
CALIFORNIA HOUSING FINANCE AGENCY
For the Years Ended December 31, 200Y and **200X**

Disposition of Surplus Cash

	200Y	200X
Surplus Cash	$	$
Allowable owner distribution (*p.*) (Subject to CalHFA approval)		
Residual receipts	$	$

Calculation of Residual Receipts to CalHFA

	200Y	200X
Reserve fund for operations (*q.*) Current year account requirement (5% of year end gross potential rent)	$	$
Reserve fund for operations balance (per annual mortgage statement)		
Earned surplus account		
Residual receipts		
Reserve fund for operations current year requirements		
Remit to CalHFA – project earned surplus account		
Total funds to be remitted to CalHFA	$	$

EXAMPLE APARTMENTS COMPANY
SUPPLEMENTARY INFORMATION REQUIRED BY THE
CALIFORNIA HOUSING FINANCE AGENCY
For the Years Ended December 31, 200Y and **200X**

Operating Expenses

	200Y	200X
Payroll		
On-site manager	$	$
Office and administrative		
Maintenance/janitorial		
Grounds maintenance		
Security		
Payroll taxes and workers' compensation		
Employee benefits		
Value of employee apartments		
Total payroll	$	$
Administrative		
Renting expenses	$	$
Office supplies/minor equipment		
Management fee		
Legal		
Audit expenses		
Accounting/bookkeeping		
Electronic data processing		
Telephone		
Miscellaneous (*r*.)		
Total administrative	$	$
Utilities		
Electricity	$	$
Water and sewer		
Gas		
Other (describe)		
Total utilities	$	$

EXAMPLE APARTMENTS COMPANY
SUPPLEMENTARY INFORMATION REQUIRED BY THE
CALIFORNIA HOUSING FINANCE AGENCY
For the Years Ended December 31, 200Y and **200X**

	200Y	200X
Operating and maintenance		
Maintenance supplies	$	$
Maintenance and repair services		
Grounds contract/services		
Janitorial supplies		
Grounds supplies		
Security services		
Elevator contract service		
Exterminating		
Trash removal		
Heating and A/C services		
Decorating and painting		
Other (describe) (*r*.)		
Total operating and maintenance	$	$
Insurance and taxes		
Property and comprehensive insurance	$	$
Earthquake insurance (*s*.)		
Other insurance (describe) (*s*.)		
Property taxes		
Business tax and licenses		
Other taxes (describe) (*s*.)		
Total insurance and taxes	$	$

EXAMPLE APARTMENTS COMPANY
SUPPLEMENTARY INFORMATION REQUIRED BY THE
CALIFORNIA HOUSING FINANCE AGENCY
For the Years Ended December 31, 200Y and **200X**

Footnotes

The accompanying footnotes are an integral part of these financial statements.

(a.) The financial statements should show amounts, if any, for each of these categories.
(b.) Where "other receivables" are shown, detail should be included in the supplementary information.
(c.) Tax and insurance impound accounts should be shown separately.
(d.) Tenant security deposits cash account should be separated from tenant security deposits payable.
(e.) Replacement Reserve, Reserve fund for operation; Transition Operating Reserve ("TOR"); Construction Deficit; Construction Completion; Rehab completion and other CalHFA held reserves shall be included in restricted funds as appropriate and depicted individually rather than accumulatively unless the breakout is included in the supplemental information.
(f.) Computation of gross potential rents should, if applicable, be included in the auditor's audit documentation.
(g.) The inclusion of items in the "example" that are not referenced in a CalHFA Regulatory Agreement are provided for example purposes only.
(h.) It is important that all money on deposit be identified so that CalHFA staff may determine if it is includable in the surplus cash computation. If the owner or management company has set up any special reserve accounts, those accounts should be included here.
(i.) Interest on tenant security deposits is restricted income and should not be included as income in the Statement of Operations or the detailed Schedule of Operating Expenses.
(j.) Impound accounts must be shown separately in the financial statements.
(k.) Interested earned to December 31, 200Y is shown as accrued but is not included in balances confirmed by CalHFA.
(l.) If unable to agree to gross potential rent, an explanation should be included.
(m.) Over-under funded restricted impound balances are not to be included in the computation of surplus cash.
(n.) Other receivables anticipated within 30 days.
(o.) First year financial statements should provide information concerning the computation of owner's equity where applicable and computation of the maximum allowable distribution.
(p.) Payment of the current year limited distribution may be reduced if CalHFA determines that unauthorized payments have been made from project funds.
(q.) The requirement for establishing this account may vary depending on provisions of the Regulatory Agreement. CalHFA policy no longer requires remittance of funds in excess of 5% of gross potential rent as Earned Surplus of Residual Receipts.
(r.) Miscellaneous and other items in excess of 5% of the total expenses should be detailed separately.

(s.) Earthquake insurance and other specialized types of insurance must be shown separately.

XYZ & Co.
Certified Public Accountants
101 Main Street
Any City, California

Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*
(NO MATERIAL NON-COMPLIANCE NOTED)

To The Partners
Example Apartments Company:

We have audited the financial statements of Example Apartments Company, a California Limited Partnership, CalHFA Project No. XXXX, (the "Partnership") as of and for the year ended December 31, 200Y and have issued our report thereon dated February 1, 200Z.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance
Compliance with laws, regulations, contracts and grants applicable to the Partnership is the responsibility of the Partnership's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Partnership's compliance with certain provisions of laws and regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement audits. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

Internal Control over Financial Reporting
The management of the Partnership is responsible for establishing and maintaining effective internal control. In planning and performing our audit, we considered the Partnership's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses as defined above.

This report is intended solely for the information of the audit committee, management and the California Housing Finance Agency, and is not intended to be and should not be used by anyone other than these specified parties.

February 1, 200Z
Any City, California

Note: The wording of this statement will vary depending on the circumstances but should conform with the auditing standards generally accepted in the United States of America, or in case of projects owned by governmental agencies, those standards required by the *Government Auditing Standards*, issued by the Comptroller General of the United States.

EXAMPLE APARTMENTS COMPANY
SCHEDULE OF AUDIT FINDINGS, COMMENTS AND RECOMMENDATIONS
For the Year Ended December 31, 200Y

Status of Prior Year Findings and Recommendations

All of those audit findings and recommendations as indicated in the financial statements of December 31, 200X have been resolved except for the following:

As indicated in 2 at December 31, 200Y, the management does not account for gross potential rent on a monthly basis as was recommended.

Findings, Comments and Recommendations

1. Operating account

Operating account balance over $100,000 is not insured by the Federal Deposit Insurance Corporate (“FDIC”) or the Federal Savings Loan Insurance Corporation (“FSLIC”).

The operating account established by the Partnership must be fully insured by either the FDIC or the FSLIC. The Partnership is required to establish an operating account with a depository which is insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation.

Recommendation: The operating account balance exceeding $100,000 should be transferred from the current establishment into one that is insured by the FDIC or the FSLIC such that 100% of all balances are insured.

2. Gross potential rent not used in accounting for rents

The management agent does not use gross potential rent in the preparation of the general ledger on a monthly basis. As a result, we have been unable to account for $_____ which is the excess of collections over tenant rents, housing assistance payments and vacancies as determined. In the prior year the unaccounted amount was $_____ less than should have been collected. Unless reconciled to gross potential rents on a monthly basis, and unless tenant accounts are reconciled to a control account we have no assurance that the correct amounts were collected from tenants and from the housing assistance payments program.

Recommendation: The monthly reporting form should be changed to reconcile to gross potential rents and entries to the general ledger accounts should be reconciled accordingly.

EXAMPLE APARTMENTS COMPANY
SCHEDULE OF AUDIT FINDINGS, COMMENTS AND RECOMMENDATIONS
For the Year Ended December 31, 200Y

3. Expenditure for attorney's fees may not be proper project expense

During 200Y, the general partner requested services of the Partnership's attorney to determine if the general partner could sell part of its partnership interest. The fee for these services was $_____ which was accrued at December 31, 200Y. Non-project expenses are not allowed by the Regulatory Agreement to be paid by the development.

Recommendation: The project has no separate funds from which to pay expenses of this nature. We suggest that management consult with CalHFA to determine what action, if any, is required.

4. CalHFA permission required prior to alterations or demolishing structure

During November 200Y the Board agreed to have a sound barrier and fence demolished. The Regulatory Agreement provides that prior permission be obtained. Correspondence indicates that CalHFA permission was not obtained until after the work had been completed.

Recommendation: Management should obtain permission in advance if future alterations are contemplated.

5. Security deposit account is less than the security deposit liability

During October 200Y, repairs to a vacated unit were paid from the security deposit in an amount that exceeded the security deposit and interest earned. Additional funds needed for the unit turn-over should have been authorized by CalHFA and paid through the Replacement Reserve account as required by the Regulatory Agreement. Correspondence indicates that CalHFA permission was not obtained.

Recommendation: Management should ensure that security deposits held in trust should meet the security deposit liability. In addition, management has established procedures to ensure unit turn-over repairs exceeding the security deposit funds will be funded through the replacement reserve and that permission will be obtained in advance by CalHFA if future cases occur.

EXAMPLE APARTMENTS COMPANY
SCHEDULE OF AUDIT FINDINGS, COMMENTS AND RECOMMENDATIONS
For the Year Ended December 31, 200Y

6. <u>Operating reserve funds have been used to pay for replacement reserve items</u>

During March 200Y, there were replacements of individual storage tanks and payments were made through the operating reserve account. The funds needed for the replacement of the individual storage tanks should have been authorized by CalHFA and paid through the Replacement Reserve account as required by the Regulatory Agreement.

Recommendation: Management should ensure that replacements of items that are listed in the Regulatory Agreement as items to be paid only out of the Replacement Reserves are made only after obtaining authorization of CalHFA out of the Replacement Reserve funds. In addition, management has set up procedures to ensure that replacements of items listed in the CalHFA replacement reserve procedures will only be funded through the replacement reserve and that permission will be obtained in advance from CalHFA if future cases occur.

7. <u>Invoices have not been properly cancelled</u>

During 200Y, the invoices prepared for payment were not stamped paid or cancelled by the manager after approving the payment. The invoices were not initialed by the manager and in many instances check copies were not attached to the invoices in the files.

Recommendation: Management should ensure that on payment of the invoices, they are either stamped paid or cancelled by the manager. The manager should initial the invoices upon approval of the payment. Check copies are to be made and filed with the invoices.

Note: Separate schedules for internal control and compliance findings may be presented**.** The response of the owner to these findings may be included.

EXAMPLE APARTMENTS COMPANY
CERTIFICATION OF GENERAL PARTNER
For the Year Ended December 31, 200Y

General Partner's Certification

We hereby certify that we have examined the accompanying financial statements and supplemental data of Example Apartments Company, a California Limited Partnership, CalHFA Project No. XXXX, as of and for the years ended December 31, 200Y, and December 31, 200X. To the best of our knowledge and belief, the same is complete and accurate.

General Partner
Example Apartments Company
California Limited Partnership
CalHFA Project No. XXXX

____
Signature Date

Partnership Employer
Identification Number
XX-XXXXX

80/20 RENTAL HOUSING PROJECT REQUIREMENTS

CalHFA's multifamily finance division provides permanent financing for new housing developments and for the preservation of existing rental housing. These programs include the Loan-to-Lender program that helps reduce the cost of construction financing for affordable housing projects by providing low-cost funding to eligible construction lenders. The New Construction Permanent Loan Program offers tax-exempt and taxable permanent financing

For developments financed by CalHFA under this program, 80% of the units may be rented at market rates and 20% of the units are to be rented at "less than market" rates to low income tenants. The low income controlled units are provided at affordable rents to persons who have qualifying incomes. Lower income units must remain for the full term of CalHFA's loan. Maximum rent to be charged the lower income tenants may not exceed 30% of the qualifying income (less utility expense if paid separate from rent).

Developments under this program, as in other CalHFA programs, are subject to a Regulatory Agreement. The independent auditor should be familiar with the applicable project related agreements, addenda, amendments, promissory notes and deed of trust prior to commencing the audit engagement.

The basic accounting and audit reporting requirements will be the same for this program as the other CalHFA programs except for special provisions or limitations that may be imposed in the documents referenced above.

Some distinct features of this program may include but are not limited to the following:

- Most projects have no limitation on cash distributions to owners.

- Some projects require CalHFA approval prior to a cash distribution because of secondary financing or other restrictions mandated by local entities.

- Some projects allow owners to take cash distributions during the year but a reconciliation to surplus cash available for distribution is required at year end.

Reference and guidance of project specific features are contained in the Regulatory Agreement or other pertinent project documents.

EXAMPLE

CalHFA PROJECT NO. XXXX

Supplementary Information Required by the
California Housing Finance Agency

For the years Ended December 31, 200Y and 200X

Surplus Cash Computation

	200Y	200X
Cash in hand and in banks	$	$
Tenant accounts receivable		
Interest receivable		
Total		
Current obligations		
Accounts payable and/or accrued expense		
Accrued mortgage interest		
Prepaid rents (unearned income)		
Tenant security deposits		
Total		
Surplus Cash	$	$

SPECIAL NEEDS

CalHFA's multifamily finance division provides financing for developments that offer housing and services to populations that come within the definition of Special Needs. Special Needs developments are most often associated with 80/20 Rental Housing Projects.

Special Needs are specific to certain projects, therefore, developments with a Special Need or meeting several classifications of Special Needs will have definitions and program services as part of the CalHFA Regulatory Agreement.

The independent auditor should be familiar with the applicable project's related agreements, addenda, amendments, promissory notes and deed of trust prior to commencing the audit engagement.

The Supplementary Information should include disclosures of budgeted Special Needs funds and expenditures in accordance with the Special Needs requirements in the Regulatory Agreement.

The auditor should review whether or not the delivery of services matches the CalHFA Regulatory requirement and disclose, to the degree the auditor is able to, whether or not the operating funds from current year operations of the development have been used to fund the Special Needs program for that year.

In addition, the sources of funds and amount of funds or utilization of contracted delivery of services should agree to the Special Needs requirement as defined in the Regulatory Agreement. Non-compliance with the Regulatory Agreement should be disclosed.

Each development with Special Needs reporting requirements has a Special Needs Report (self certification form) or an addendum to the Regulatory Agreement. The special needs report form contains details regarding the delivery of services as well as a budget versus actual component.

In the instances wherein the regulatory requirement for the special needs and the affordability requirements required by the Regulatory Agreement for the development extend beyond the maturity of the mortgage, the audited financial should merely include description of the Special Needs program in the Supplemental information and disclose any non-compliance issues as discussed above.

CALIFORNIA HOUSING FINANCE AGENCY (CalHFA)
Annual Self-Certification for Special Needs

Project Name: Sample Apartments

Self-Certification Report Period: from ___________, 20__ (date of last report) to ___________, 20__ (date of current report)

Contact Information:

Project Sponsor		Phone:
Primary Service Provider		Phone:

1. **Changes During Report Period**

Were there any changes in the **financing of service programs** during the reporting period that will affect the delivery of Special Needs Requirements:
YES _____ NO _____

If "YES" please discuss with the Asset Manager

New Sources of Service Funds		Service funding source cancellation	
Service Funding Increase or Decreases		Non-renewal of service funding sources	
New Service Partners		Extension of rental subsidy contracts	
Service Partner Cancellation		Termination of rental subsidy contracts	
Service program enhancements or reductions		Other planned service program modifications	

2. **Did the property provide the services detailed in the "Service Management Plan" that is referenced in the conditional use permit for the site.**

YES _____ NO _____

If "NO" please discuss with the Asset Manager

3. **Subsidy Sources**

Total number of units with rental subsidy contracts: _________
Years remaining on current rental subsidy contracts (please list):

Type of Subsidy	Number of Units	Years Remaining

4. Current Resident Information

• Number of households currently meeting special needs definition of a household that includes at least one adult that is (1) homeless or at risk of homelessness and (2) is suffering from (a) depression or other mental illness, (b) substance abuse, (c) one or more instances of domestic violence, or (d)) an injury, illness or disability that prevents an adult member from participating in gainful employment.	
Total number of Apartment Community residents being served within special needs definition	

5. Service Providers (please attach additional pages if needed)

Please list requested information for all service providers, whether individuals or organizations/institutions, and whether services are provided on site or off site.

Provider Name	Address	Phone Number	Contact Person	On Site	Off Site

6. Service Utilization – Services Your Special Needs Program Offers

Please indicate the number of residents who have used each of the following services at least once during the reporting period (only those that apply to your special needs program). For workshops/classes, please show total, with break-out information in shaded cells (below).

Immediate Needs Assistance		Workshops and seminars	
Individual Case Management		Credit Repair	

Group Case Management		ESL	
Support Groups:		Parenting	
Substance Abuse		Basic Math and English	
NA		Anger Management	
AA		Needs of Immigrant & Migrant Persons	
Women		Personal Financial Skills	
Support Groups Total		Job Readiness	
Health Services		Workshops and Seminars Total	
Childcare		Job Training	
HIV/AIDS Health Services		Credit Counseling	
Mental Health Counseling		Assistance in Accessing Benefits	

7. Service Budget Information

Please provide budget information for your previous and current fiscal years, including costs of staff and services combined.

Previous year budgeted funding level (FY:)	$
Previous year actual funding level (FY:)	$
Current year budgeted funding level (FY:)	$

8. Certification of Accuracy of Information Provided

I hereby certify that the information provided in this "Self-Certification for Special Needs" is true and correct, and reflects the status of the Development as of the date of this report.

Signed by: ____ Date:__________

Title: ____

Organization: ____

SPECIFIC REQUIREMENTS OF RHCP PROGRAMS

The Rental Housing Construction Program (RHCP) is a program of the State Department of Housing and Community Development. CalHFA has utilized funds from the RHCP program for development and assistance to low income housing. In this program, CalHFA establishes an Annuity Account pertaining to a specific number of units in order that rents for those units will remain affordable. Approved operating costs for those units are paid from the annuity to the extent that expenses exceed income. These units are to be occupied by eligible households as defined by program guidelines.

Developments under this program, as in other CalHFA financed programs, are subject to a Regulatory Agreement. The independent auditor should be familiar with the applicable project related agreements, addenda or amendments, promissory notes and deed of trust prior to commencing the audit engagement.

Generally, the basic accounting and audit requirements will be the same for this program as the other CalHFA programs except for special requirements provided for in various project documents.

Some distinct features of this program may include but are not limited to the following:

> <u>Annuity account</u> - The program requires the establishment of an annuity account of which CalHFA has sole control. It will invest these funds and use them to provide for the operating deficit pertaining to assisted units. If the amount provided is not sufficient, the number of units may be reduced in order to maintain the fiscal integrity of the development. Payments are made directly to the owner based on the operating budget or the audited financial statements. These receipts are shown as income to the project for assisted units. Excess payments from the annuity account as shown by the audit may be required to be reimbursed or will reduce the amount of subsequent payments.

> <u>Project accounting</u> - Where both RHCP and market units are provided, the income from each should be shown separately in the supplementary information provided to CalHFA in the annual financial report. In addition, the statement of expenses by assisted vs. non-assisted units is required to enable CalHFA staff to determine the amount of supplemental annuity funds required. The project must establish a method of allocating expenses at project inception and continue throughout the term of the loan.

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